



# CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

*(Incorporated in the Cayman Islands with limited liability)*

Stock code: 3777



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## FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2016 (the "Period"), the operating results of the Group were as follows:

- Revenue amounted to Renminbi ("RMB") 774,938,000, a decrease of 12.5% from the six months ended June 30, 2015 (the "Last Corresponding Period");
- Gross profit margin decreased to 25.1% as compared to 30.1% of the Last Corresponding Period;
- Profit for the Period amounted to RMB80,879,000, a decrease of 45.5% over the Last Corresponding Period;
- Net cash flows generated from operating activities increased 173.6% to RMB250,038,000 as compared to RMB91,380,000 of the Last Corresponding Period;
- Basic and diluted earnings per share decreased by 45.7% and 52.2% to RMB3.8 cents and RMB3.3 cents, respectively; and
- No interim dividend was declared.

# CORPORATE INFORMATION

## PLACE OF INCORPORATION

Cayman Islands

## FINANCIAL YEAR END

December 31

## REGISTERED OFFICE

Maples Corporate Services Limited  
P.O. Box 309, Ugland House  
Grand Cayman, Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1511, 15th Floor  
New World Tower 1  
16–18 Queen's Road Central  
Hong Kong

## PRODUCTION FACILITIES IN CHINA

Alishan Avenue  
Economic and Technological Development Zone  
Shijiazhuang, Hebei Province, China

New Industrial Zone, Shanghai, China

## COMPANY'S WEBSITE

[www.chinafiber optic.com](http://www.chinafiber optic.com)

## INVESTOR RELATIONS CONTACT

Mr. Hung, Randy King Kuen  
*Executive Director & Chief Financial Officer*  
Tel: (852) 2877-8033  
Fax: (852) 2877-8083  
E-mail: [randyhung@chinafiber optic.com](mailto:randyhung@chinafiber optic.com)

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhao Bing (*Chairman of the Board*)  
Mr. Meng Yuxiao  
Mr. Deng Xuejun  
Mr. Hung, Randy King Kuen (*Chief Financial Officer*)  
Mr. Xia Ni

### Independent Non-Executive Directors

Mr. Shi Cuiming\*  
Dr. Ma Kwai Yuen  
Dr. Lui Pan  
Dr. Xu Wanqiang  
Prof. Jiang Desheng

## AUDIT COMMITTEE

Dr. Ma Kwai Yuen (*Chairman of the Audit Committee*)  
Mr. Shi Cuiming\*  
Dr. Lui Pan  
Dr. Xu Wanqiang<sup>#</sup>

## CORPORATE GOVERNANCE COMMITTEE

Dr. Ma Kwai Yuen  
(*Chairman of the Corporate Governance Committee*)  
Mr. Shi Cuiming\*  
Mr. Hung, Randy King Kuen  
Dr. Xu Wanqiang<sup>#</sup>

## REMUNERATION COMMITTEE

Dr. Xu Wanqiang<sup>#</sup>  
(*Chairman of the Remuneration Committee*)  
Mr. Zhao Bing  
Dr. Lui Pan  
Mr. Shi Cuiming\*

## NOMINATION COMMITTEE

Dr. Xu Wanqiang<sup>#</sup>  
(*Chairman of the Nomination Committee*)  
Dr. Ma Kwai Yuen  
Mr. Zhao Bing  
Mr. Shi Cuiming\*

## AUTHORIZED REPRESENTATIVES

Mr. Hung, Randy King Kuen  
Mr. Meng Yuxiao

\* Resigned on September 19, 2016

<sup>#</sup> Appointed on September 19, 2016

# CORPORATE INFORMATION

## COMPANY SECRETARY

Mr. Mak Ka Chun Billy <sup>Δ</sup>

## LEGAL ADVISORS TO THE COMPANY

### As to Hong Kong law:

Robertsons Solicitors  
Slaughter and May

### As to Cayman Islands law:

Maples and Calder

## INDEPENDENT AUDITORS

HLB Hodgson Impey Cheng Limited

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China,  
Shijiazhuang Branch  
Huaxia Bank, Shijiazhuang Branch  
Shanghai Pudong Development Bank,  
Shijiazhuang Branch  
Postal Saving Bank of China,  
Shijiazhuang Branch  
China CITIC Bank, Shijiazhuang Branch  
China CITIC Bank International  
The Hongkong and Shanghai Banking  
Corporation Limited  
Bank of China (Hong Kong) Limited

## STOCK INFORMATION

### Place of Listing

The Stock Exchange of Hong Kong Limited  
(the "Stock Exchange")

### Stock Code

3777

### Listing Date

July 14, 2011

### Issued Shares

2,144,491,200 shares

### Board Lot Size

2,000 shares

<sup>Δ</sup> appointed on September 15, 2016

## CAYMAN SHARE REGISTRAR

Maples Fund Service (Cayman) Limited  
P.O. Box 1093, Boundary Hall  
Cricket Square, Grand Cayman  
KY1-1102, Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

China Fiber Optic Network System Group Ltd. (the "Company"), together with its subsidiaries, (the "Group") is a leading solution provider of optical interconnect equipment in the Peoples' Republic of China (the "PRC").

The Group produces and sells a comprehensive portfolio of active and passive optical interconnect equipment used in a variety of applications in the telecommunications and other industries in the PRC and overseas markets including Australia, New Zealand and the United Kingdom.

For the Period, the Group's revenue decreased by 12.5% to RMB774,938,000 as compared to that of the Last Corresponding Period.

Profit before tax decreased by 42.0% to RMB106,531,000 for the Period from RMB183,634,000 for the Last Corresponding Period and profit for the Period decreased by 45.5% to RMB80,879,000, mainly due to the declines in revenue and gross profit margin, increase in interest expense from new bank loans and increase in expense from share options.

Net cash flows generated from operating activities increased by 173.6% to RMB250,038,000 as compared to RMB91,380,000 of the Last Corresponding Period.

Basic and diluted earnings per share for the Period based on weighted average number of ordinary shares of 2,144,491,000 and 2,501,891,000 in issue decreased by 45.7% and 52.2% to RMB3.8 cents and RMB3.3 cents, respectively.

## REVENUE BY PRODUCT CATEGORY

Revenue by product category during the Period and the Last Corresponding Period are set forth below:

	Six months ended June 30,		
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	Change
Fiber optic patch cords	298,227	614,896	(51.5%)
Connection and distribution products	337,761	229,979	46.9%
Equipment room accessories	138,950	40,503	243.1%
	<b>774,938</b>	885,378	(12.5%)

Sales of fiber optic patch cords for the Period decreased by 51.5% to RMB298,227,000. Sales of connection and distribution products increased 46.9% to RMB337,761,000, while sales of equipment room accessories went up 243.1% to RMB138,950,000.

The decline in total revenue was primarily connected to the shift of the Group's strategic direction during the Period to solidify long term growth prospect and sustainability by focusing on strengthening operating cash flow rather than profit growth. In particular, the Group had underweighted doing business with customers who traditionally demand for a longer credit period in order to improve cash flows generated from operating activities. A substantial portion of domestic sales made during the Period were to customers with a credit period of 6 months.

# MANAGEMENT DISCUSSION AND ANALYSIS

## DOMESTIC AND OVERSEAS SALES

During the Period, sales of fiber optic patch cords to domestic and overseas customers accounted for 71.3% and 28.7%, respectively as compared to 83.5% and 16.5% of the Last Corresponding Period.

The following table shows the breakdown of sales of fiber optic patch cords to domestic and overseas markets:

	Six months ended June 30,		
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	Change
Domestic sales — fiber optic patch cords	212,538	513,507	(58.6%)
Domestic sales — other products	476,710	270,482	76.2%
	689,248	783,989	(12.1%)
Overseas sales — fiber optic patch cords:			
— New Zealand	41,750	41,469	0.7%
— Australia	16,258	28,668	(43.3%)
— United Kingdom	27,653	31,252	(11.5%)
— Others	29	—	New
	85,690	101,389	(15.5%)
Total sales	774,938	885,378	(12.5%)

The decrease in overseas sales was in line with the priority of the Group to tighten credit control and generate positive operating cash flows for the Period.

## GROSS PROFIT MARGIN

For the first six months of 2016, overall gross profit margin of the Group was 25.1%, as compared to 30.1% for the Last Corresponding Period. The decrease in overall gross profit margin was mainly due to the change in product sales mix to more connection and distribution products which have lower gross profit margins, and decline in gross profit margin of domestic sales of fiber optic patch cord.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OTHER INCOME

During the Period, other income decreased by 4.8% to RMB13,675,000 as compared to the Last Corresponding Period.

## SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses primarily consisted of transportation fees in connection with our sales, salaries of sales personnel, promotion expenses and other expenses relating to our selling and distribution activities.

During the Period, selling and distribution expenses of the Group decreased by 60.5% to RMB5,161,000 as compared to the Last Corresponding Period, primarily due to the decline in promotion expense.

Selling and distribution expenses were 0.7% and 1.5% of the revenue for the six months ended June 30, 2016 and 2015, respectively.

## ADMINISTRATIVE EXPENSES

Administrative expenses primarily consisted of wages and salaries paid to management and administrative personnel, professional fees, research and development costs, and depreciation of property, plant and equipment not related to production, and share option expense.

For the first six months of 2016, administrative expenses went up RMB3,963,000 or by 6.4% as compared to the Last Corresponding Period, primarily due to increases in depreciation of property, plant and equipment not related to production and share option expense.

Depreciation of property, plant and equipment not related to production increased to RMB12,374,000 for the Period from RMB7,854,000 for the Last Corresponding Period.

Share option expense was RMB11,611,000 and RMB2,911,000 for the six months ended June 30, 2016 and 2015, respectively.

For the first half of 2016 and 2015, administrative expenses accounted for 8.5% and 7.0% of total revenue respectively.

## FINANCE COSTS

Finance costs mostly consisted of interest expense relating to the Group's bank loans. For the Period and the Last Corresponding Period, finance costs accounted for 3.8% and 2.4% of total revenue respectively.

Finance costs increased 41.0% to RMB29,784,000 as compared to the Last Corresponding Period as the new bank loans borrowed around the middle of 2015 resulted in a higher bank loan average balance for the Period as compared to the Last Corresponding Period, leading to increase in relevant interest expenses.

The effective interest rates of our bank loans during the Period ranged from 2.2% to 6.4%, as compared to 2.0% to 7.3% of the Last Corresponding Period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INCOME TAX EXPENSES

Income tax expenses decreased 27.4% to RMB25,652,000 during the Period as compared to the Last Corresponding Period. The decrease was in line with the decrease in gross profit during the Period. The effective tax rate changed from 19.2% to 24.1% as compared to the Last Corresponding Period mainly because the Group incurred more non-tax deductible expenses such as interest expense of Hong Kong bank loans and share option expense of the Company.

Please refer to Note 6 to the Condensed Consolidated Interim Financial Statement for further details on income tax rates.

## EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the Period is based on weighted average number of ordinary shares of 2,144,491,200 and 2,501,891,000 respectively in issue, which were RMB3.8 cents and RMB3.3 cents as compared to RMB7.0 cents (restated) and RMB6.9 (restated) cents respectively based on weighted average number of ordinary shares of 2,118,087,000 and 2,147,252,000 over the Last Corresponding Period.

Please refer to Note 7 to the Condensed Consolidated Interim Financial Statement for further details on earnings per share.

## INTERIM DIVIDEND

The board of directors (the "Directors" and the "Board" respectively) has resolved not to declare interim dividend for the Period (2015: Nil).

## CAPITAL STRUCTURE

During the Period, the Group financed its growth in business primarily by cash inflow from operations, utilizing bank borrowings, and issuance of convertible bonds. Interest-bearing bank loans decreased from RMB1,217,625,000 as at December 31, 2015 to RMB965,941,000 as at June 30, 2016, which included RMB borrowings of RMB317,135,000, US Dollars borrowings of RMB632,323,000 and other foreign currency borrowings of RMB16,483,000 respectively.

## CONVERTIBLE BONDS

On April 29, 2016 the Company issued convertible bonds pursuant to a subscription agreement and a supplementary agreement entered into between the Company and China Guorong Assets Management Limited ("China Guorong") on March 23 and April 15, 2016, respectively, in an aggregate principal amount of HK\$166,905,800 (the "Convertible Bonds"). The Convertible Bonds bear an interest rate of 6.0% per annum payable on the date falling on the second anniversary of the date of the issue of the Convertible Bonds (the "Maturity Date") or on the date of redemption thereof, whichever is the earlier. The Convertible Bonds may after the first six months of its issuance and prior to the Maturity Date be converted into 357,400,000 conversion shares (the "Conversion Shares") (subject to adjustments) based on the initial conversion price of HK\$0.467 each upon full conversion.

# MANAGEMENT DISCUSSION AND ANALYSIS

The number of shares that may be issued upon full conversion of the outstanding Convertible Bonds and the dilutive impact on the number of issued shares of the Company and respective shareholdings of the substantial shareholders of the Company are shown as follows:

Shareholders	As at the date of the Convertible Board Announcement on March 24, 2016		Immediately after conversion in full of the Convertible Bonds (assuming no share options of the Company have been exercised)	
	No. of Shares	Approximate percentage of interest	No. of Shares	Approximate percentage of interest
<i>Directors</i>				
Mr. Zhao Bing	643,616,414	30.01%	643,616,414	25.73%
Mr. Xia Ni	240,000	0.01%	240,000	0.01%
Mr. Shi Cuiming*	132,000	0.01%	132,000	0.01%
Dr. Ma Kwai Yuen	360,000	0.02%	360,000	0.01%
Subscriber	–	–	357,400,000	14.29%
Public shareholders	1,500,142,786	69.95%	1,500,142,786	59.95%
Total	2,144,491,200	100.00%	2,501,891,200	100.00%

\* Mr. Shi Cuiming resigned as an independent non-executive Director (the "INED") with effect from September 19, 2016

Basic earnings per share attributable to ordinary equity holders of the Group for the Period was RMB0.038 and earnings per share would be diluted to RMB0.033 if the convertible bonds is fully converted.

The net current asset and net assets of the group as at June 30, 2016 are RMB948 million and RMB3,370 million respectively and should be able to meet the redemption obligations under the convertible bonds.

Please refer to Note 15 to the Condensed Consolidated Interim Financial Statement for further details.

## GEARING RATIO

The Group monitors its leverage using a gearing ratio, which is net debt divided by equity plus net debt.

Net debt includes interest-bearing bank loans, trade and notes payables, other payables and accruals and tax payable less cash and cash equivalents and pledged bank balances.

The Group's policy is to keep the gearing ratio at a reasonable level.

The Group's gearing ratios as of June 30, 2016 and December 31, 2015 were 41.1% and 42.1%, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2016, cash and bank deposits, time deposits, and pledged bank balances, in total amounted to RMB843,996,000 which comprised RMB759,600,000, and others being equivalent to RMB68,932,000, RMB13,603,000 and RMB1,861,000 denominated in Hong Kong Dollars ("HK Dollars"), United States Dollars ("US Dollars") and Canadian Dollars ("CAD") respectively.

During the Period, the Group financed its operations through cash generated from operating activities, utilizing bank borrowings and issuance of convertible bonds.

Current assets net of current liabilities was RMB948,744,000 as at June 30, 2016. The Group had RMB223,583,000 of long term liabilities consisted mainly of convertible bonds.

In the future, we expect to use funds from a combination of sources to fund our operation and expansion plan, including debt, share capital and internally generated cash flow.

Taking into account these financial resources available to us, the Directors are of the opinion that we have sufficient working capital to meet our requirement for future development.

## CASH FLOW ANALYSIS

The following table sets forth selected cash flow data derived from our consolidated statement of cash flows for the periods indicated.

	For the six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Net cash flows from operating activities	250,038	91,380
Net cash flows used in investing activities	(188,574)	(124,221)
Net cash flows (used in)/from financing activities	(123,718)	337,907
Net (decrease)/increase in cash and cash equivalents	(62,254)	305,066

Net cash flows from operating activities for the first six months of 2016 was primarily generated from profit before tax of RMB106,531,000, the decrease of RMB87,931,000 in trade and notes receivables and the decrease of RMB71,435,000 in prepayments, deposits and other receivables.

Net cash flows used in investing activities for the first six months of 2016 was primarily related to purchases of items of property, plant and equipment of RMB174,117,000.

Net cash inflows from financing activities for the first six months of 2016 was primarily used in repayment of bank loans of RMB392,195,000, which was offset by the increases of RMB119,235,000 and RMB137,240,000 in new bank loans and issuance of convertible bonds respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## TRADE AND NOTES RECEIVABLES

Billed trade receivables included billed trade receivables from domestic sales made for which value added tax invoices have been issued to domestic customers and overseas sales made for which commercial invoices have been issued to overseas customers. Unbilled trade receivables were related to domestic sales made for which value added tax invoices have not been issued to domestic customers.

Billed trade receivables, unbilled trade receivables and notes receivables balances in total decreased by 2.9% to RMB2,578,045,000 as at June 30, 2016.

As at August 22, 2016, a total of RMB387,777,000 had been collected from customers since July 1, 2016.

There were no bad debt provisions made on trade receivables for the Period and for the year ended December 31, 2015.

## INVENTORIES

Inventories as at June 30, 2016 increased 112.4% to RMB159,024,000 as compared to RMB74,879,000 as at December 31, 2015.

The increase of inventories was primarily attributable to the increases of raw materials and finished goods. A substantial portion of these raw materials were turned into finished goods and sold to the customers as of the date of this interim report.

## TRADE AND NOTES PAYABLES

Trade and notes payables as at June 30, 2016 amounted to RMB786,846,000 as compared to RMB782,919,000 as at December 31, 2015.

## INDEBTEDNESS

As at June 30, 2016, our indebtedness included banking loans of RMB965,941,000, obligations under finance leases of RMB53,494,000 and convertible bonds of RMB133,031,000 as compared to RMB1,217,625,000, RMB45,139,000 and Nil as at December 31, 2015, respectively.

The effective interest rates of our bank loans per annum were 2.2% to 6.4% and 2.0% to 7.3% as at June 30, 2016 and December 31, 2015, respectively.

Please refer to Notes 14 and 15 to the Condensed Consolidated Interim Financial Statement for more details of our bank loans and convertible bonds, respectively.

## OTHER PAYABLES AND ACCRUALS

As at June 30, 2016, other payables and accruals consisted primarily of taxes payable other than income tax, payables for construction in progress related to establishing and upgrading the production and non-production facilities. The balance of other payables and accruals was maintained at a similar level when compared with that as at December 31, 2015.

## CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at June 30, 2016.

# MANAGEMENT DISCUSSION AND ANALYSIS

## SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as otherwise disclosed, there were no significant investments held, material acquisitions, or disposals of subsidiaries during the Period under review. And save as those disclosed in this interim report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this interim report.

## CHARGES ON ASSETS

As of June 30, 2016, the Group had pledged RMB611,154,000 (December 31, 2015: RMB946,506,000) of its assets in order to secure banking facilities or bank loans, which were used to finance daily business operation, and RMB307,554,000 (December 31, 2015: RMB260,336,000) of the Group's bank balances for issuance of notes payable, letters of guarantee and letters of credit.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Substantially, all of the Group's business transactions and liabilities are denominated in RMB, US Dollars, CAD and HK Dollars. The Group adopts a conservative financial policy and most of its bank deposits are in RMB, US Dollars, CAD and HK Dollars.

As at June 30, 2016, the Group had US Dollars bank borrowings of RMB632,323,000 and outstanding balance of HK Dollars denominated Convertible Bonds of RMB133,031,000 and the related exchange risk could be mitigated from the collection of trade receivables in US Dollars from overseas customers and the bank deposits in US dollars and HK Dollars. The Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to material interest and exchange risks.

## RELATED PARTY TRANSACTIONS

Save as disclosed in Note 20 to the Condensed Consolidated Interim Financial Statement, the Group had not entered into any other related party transactions for each of the six months periods ended June 30, 2016 and 2015.

## OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

As at June 30, 2016, the Group did not have any off-statement of financial position arrangements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.21 OF CHAPTER 13 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE “LISTING RULES”)

The Company and/or its subsidiary is a party to certain bank facilities that include conditions imposing specific performance obligations (the “Specific Performance Obligations”) on the controlling shareholder(s) of the Company and breach of any of the Specific Performance Obligations will cause a default in respect of the facilities. Disclosure pursuant to Rules 13.18 and 13.21 of the Listing Rules in respect of the relevant loans is made as follows:

### Loan 1

On November 7, 2013, a wholly-owned subsidiary of the Company entered into a facility agreement with China CITIC Bank International Limited in respect of a term loan facility in the principal amount of US\$20,000,000 for a term of 36 months after the date of the facility agreement.

The Specific Performance Obligations are:

- (i) Kemy Holding Inc. (“Kemy”) shall continue beneficially own at least 30% of the issued Shares;
- (ii) Mr. Zhao Bing (“Mr. Zhao”) shall remain legally and beneficially owning at least 75% of the issued shares of Kemy; and
- (iii) Mr. Zhao will remain as management over the Company.

### Loan 2

On June 1, 2015, the Company entered into a facility agreement with Bank of China (Hong Kong) Limited in respect of a 3-year term loan facility in an aggregate principal amount up to US\$30,000,000 commencing on the date of drawdown of the facility.

The Specific Performance Obligations are:

- (i) Kemy shall maintain directly or indirectly not less than 30% of the Shares;
- (ii) Mr. Zhao shall maintain directly or indirectly not less than 75% of issued shares of Kemy; and
- (iii) Mr. Zhao will remain as the chairman of the Board.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Loan 3

On July 24, 2015, the Company entered into a facility agreement with The Hongkong and Shanghai Banking Corporation Limited in respect of a 3-year term loan facility in an aggregate principal amount up to US\$40,000,000 or equivalent to RMB250,000,000 for a committed period of 18 months after the first drawdown date of the facility.

The Specific Performance Obligations are:

- (i) Mr. Zhao will continue to maintain, directly or indirectly, not less than 30% beneficial interest in the Shares; and
- (ii) Mr. Zhao will remain as the chairman of the Board.

## Convertible Bonds

On April 29, 2016 the Company issued convertible bonds pursuant to a subscription agreement and a supplementary agreement with China Guorong, in an aggregate principal amount of HK\$166,905,800.

China Guorong is entitled to early redeem the Convertible Bonds if any of the followings occurs:

- (i) save as provided under the Listing Rules or at the request of the Stock Exchange, the Listing Committee, the Securities and Futures Commission of Hong Kong or under other law that the controlling shareholder of the Company shall abstain from voting on the relevant transactions, the exercise of the voting power at any general meeting(s) of the Company by Kemy is less than any other single shareholders of the Company; or
- (ii) Mr. Zhao ceases to be the chairman of the Board.

## EMPLOYEES AND STAFF COSTS

As at June 30, 2016, the Group had 557 employees (December 31, 2015: 734 employees). Employees costs, including the emoluments of the Directors amounted to HK\$18,693,000 for the Period (2015: HK\$26,813,000).

Remuneration is determined and reviewed based on fair principles by reference to the market conditions and individual performance.

The Group also provides other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong are also enrolled in the mandatory provident fund scheme. The Group also operates share option schemes to reward employees for their contributions to the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK

During the Period, the Group continued to implement vertical integration strategy with the continuous development of high-end optical interconnect products and Fiber-To-The Home broadband internet business apart from the production of our traditional products. Shanghai Net Miles Fiber Optics Technology Co., Ltd., a subsidiary of the Company, has been making good progress on our new products for data centers. It is expected that, its 100G QSFP 28 and 25G SFP+ modules will be introduced to the market in due course.

Toward the end of 2015, the Group signed a cooperative agreement with China Telecom to engage in Fiber-To-The-Home broadband internet business. The first batch of Fiber-To-The-Home access ports was completed, and the Group is now negotiating on the scale and the commencement date of the second batch project.

In addition, riding on the PRC government's policy in respect of fostering big data development and leveraging on the opportunity that Beijing, Tianjin and Hebei will join hands to build a big data comprehensive experimental zone, the Company is making preparation on constructing a data center in Shijiazhuang, Hebei Province, so as to capture the rapid development of "Big Data". The decision to build our first data center in Shijiazhuang is also due to its proximity to the country's capital Beijing and Tianjin municipality to be part of the Bohai Economic Rim and gain political and economic advantages. This data center will contribute to the demands for fiber optic patch cords, equipment room accessories and optical inter-connect products of the Group, and also create synergy with the Group's advantage of its familiarity with local operating environment.

A key priority for the Group in 2016 is to improve operating cash flow. Hence, the Group had made substantial portion of its sales during the Period to customers with shorter payment terms and succeeded in registering a substantial increase in net cash flow generated from operating activities while trade receivables balance has also started to decline. The Group will continue to optimize customer mix of its manufacturing business to enhance operating cash flow, and grasp opportunities from Broadband China, "Internet+" and big data development through appropriate allocation of internal resources.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three members, namely Dr. Ma Kwai Yuen (Chairman), Mr. Shi Cuiming and Dr. Lui Pan, all being INEDs. The Audit Committee has reviewed with management and the Company's independent auditors the Company's unaudited consolidated interim results, the interim report as well as the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including the review of the unaudited interim condensed financial information for the Period.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the Period, the Company was in compliance with the principles and code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules.

The Company focuses on maintaining a high standard of corporate governance in order to achieve sustainable development and enhance corporate performance especially in the areas of internal control, fair disclosure and accountability to all Shareholders. The Company's compliance with the code provisions and recommended best practices of the CG Code are set out in the Corporate Governance Report of its 2015 annual report.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by the Directors. Specific enquiries have been made by the Company with all Directors, and each of them has confirmed his compliance with the Model Code in connection with the Company's securities transactions during the Period.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Period, the Company did not redeem any of its Shares listed on the Main Board of the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares.

## SHARE OPTION SCHEMES

The Company has adopted the Pre-IPO Share Option Scheme and the Share Option Scheme by resolutions of the Shareholders on June 3, 2011.

The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are substantially the same except for the subscription price which was the offer price of the shares (the "Shares") under the initial public offering for the share options granted under the Pre-IPO Option Scheme. A summary of the principal terms and conditions of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 17 to the Interim Condensed Financial Information.

The purposes of the Pre-IPO Share Option Scheme and the Share Option Scheme are to reward the employees for their past and future contributions to the Group, to aid the Group in retaining the key and senior employees and to encourage the employees to work toward enhancing the Group's value.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

Details of the movements in the share options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme are as follows:

Category	Year of Grant (Note 1)	Number of share options				Outstanding as at June 30, 2016
		Outstanding as at January 1, 2016	Granted during the Period	Exercised during the Period	Lapsed/Cancelled during the Period	
<b>Substantial Shareholders and Executive Directors</b>						
Mr. Zhao Bing	2015	2,144,400	–	–	–	2,144,400
<b>Executive Directors</b>						
Mr. Meng Yuxiao	2011	2,880,000	–	–	–	2,880,000
	2013	2,880,000	–	–	–	2,880,000
	2015	8,484,000	–	–	–	8,484,000
		14,244,000	–	–	–	14,244,000
Mr. Deng Xuejun	2011	2,880,000	–	–	–	2,880,000
	2013	2,880,000	–	–	–	2,880,000
	2015	8,484,000	–	–	–	8,484,000
		14,244,000	–	–	–	14,244,000
Mr. Hung, Randy King Kuen	2011	2,880,000	–	–	–	2,880,000
	2013	2,880,000	–	–	–	2,880,000
	2015	8,484,000	–	–	–	8,484,000
		14,244,000	–	–	–	14,244,000
Mr. Xia Ni	2013	9,000,000	–	–	–	9,000,000
	2015	7,944,000	–	–	–	7,944,000
		16,944,000	–	–	–	16,944,000

# CORPORATE GOVERNANCE AND OTHER INFORMATION

Category	Year of Grant (Note 1)	Number of share options				Outstanding as at June 30, 2016
		Outstanding as at January 1, 2016	Granted during the Period	Exercised during the Period	Lapsed/ Cancelled during the Period	
<b>Independent Non-Executive Directors</b>						
Mr. Shi Cuiming <sup>4</sup>	2013	374,400	–	–	–	374,400
	2015	225,600	–	–	–	225,600
		600,000	–	–	–	600,000
Dr. Ma Kwai Yuen	2013	374,400	–	–	–	374,400
	2015	225,600	–	–	–	225,600
		600,000	–	–	–	600,000
Dr. Lui Pan	2013	600,000	–	–	–	600,000
	2015	225,600	–	–	–	225,600
		825,600	–	–	–	825,600
<b>Other eligible participants under the Share Option Scheme</b>	2013	36,374,400	–	–	–	36,374,400
	2015	53,445,600	–	–	–	53,445,600
		89,820,000	–	–	–	89,820,000
<b>Total</b>		<b>153,666,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>153,666,000</b>

Notes:

(1)

Year of Grant	Date of Grant	Exercise price per Share HK\$	Exercisable period
2011	June 3, 2011 (Note 2)	1.000 (adjusted)	January 14, 2012 to June 2, 2021
2013	July 2, 2013	0.833 (adjusted)	January 2, 2014 to July 1, 2023 (Note 3)
2015	November 17, 2015	0.862	May 17, 2016 to November 16, 2025 (Note 3)

(2) The date of grant of the share options under the Pre-IPO Share Option Scheme was deemed to be July 14, 2011 for financial reporting purposes.

(3) Subject to vesting in accordance with the following schedule:

- 1/6: 6 months after date of grant
- 1/6: 12 months after date of grant
- 1/6: 18 months after date of grant
- 1/6: 24 months after date of grant
- 1/6: 30 months after date of grant
- 1/6: 36 months after date of grant

(4) Mr. Shi Cuiming resigned as an INED with effect from September 19, 2016

# CORPORATE GOVERNANCE AND OTHER INFORMATION

As at June 30, 2016, a total of 124,786,320 Shares were available for issue pursuant to the terms of the Share Option Scheme, representing in aggregate approximately 5.82% of the Company's issued Shares (as at December 31, 2015: 124,786,320 Shares, representing approximately 5.82% of the Company's then issued Shares).

## ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES

Save as disclosed above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of the Shares or any shares in other body corporate.

## DISCLOSURE OF INTERESTS

As at June 30, 2016, disclosure of interests required under section 352 of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") and the Model Code is as follows:

### (a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at June 30, 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

#### (i) Long positions in shares

Name of Directors/ Chief Executive	Nature of interest	Number of Shares held	Approximate percentage of shareholding interest in the Company <sup>3</sup>
Mr. Zhao Bing	Interest of controlled corporation	643,616,414 (Note 1)	30.01%
Mr. Xia Ni	Beneficial Owner	240,000	0.01%
Mr. Shi Cuiming <sup>4</sup>	Beneficial Owner	132,000	0.01%
Dr. Ma Kwai Yuen	Beneficial Owner	360,000	0.01%

Notes:

(1) These Shares were registered in the name of Kemy, the entire issued share capital of which was legally and beneficially owned as to 79% by Mr. Zhao Bing (an Executive Director of the Company and the Chairman of the Board), 17% by Ms. Shi Shuran (mother of Mr. Zhao Bing), 1% by Mr. Zhang Yonglu, 1% by Mr. Deng Xuejun (an Executive Director of the Company), 1% by Mr. Meng Yuxiao (an Executive Director of the Company) and 1% by Mr. Han Liren. Under the SFO, Mr. Zhao Bing was deemed to be interested in all the Shares held by Kemy.

(2) The Shares referred to above are ordinary shares of US\$0.001 each.

(3) The percentage of shareholding interest in the Company is calculated on the basis of 2,144,491,200 Shares in issue as at June 30, 2016.

(4) Mr. Shi Cuiming resigned as an INED with effect from September 19, 2016.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### (ii) Long positions in share options of the Company

Name of Director	Nature of interest	Number of share options outstanding	Notes	Total number of underlying shares <sup>4</sup>	Approximate percentage of shareholding interest in the Company <sup>5</sup>
Mr. Zhao Bing	Beneficial Owner	2,144,400	3	2,144,000	0.10%
Mr. Meng Yuxiao	Beneficial Owner	2,880,000	1	14,244,000	0.66%
		2,880,000	2		
		8,484,000	3		
Mr. Deng Xuejun	Beneficial Owner	2,880,000	1	14,244,000	0.66%
		2,880,000	2		
		8,484,000	3		
Mr. Hung, Randy King Kuen	Beneficial Owner	2,880,000	1	14,244,000	0.66%
		2,880,000	2		
		8,484,000	3		
Mr. Xia Ni	Beneficial Owner	9,000,000	2	16,944,000	0.79%
		7,944,000	3		
Mr. Shi Cuiming <sup>6</sup>	Beneficial Owner	374,400	2	600,000	0.03%
		225,600	3		
Dr. Ma Kwai Yuen	Beneficial Owner	374,400	2	600,000	0.03%
		225,600	3		
Dr. Lui Pan	Beneficial Owner	600,000	2	825,600	0.04%
		225,600	3		

Notes:

- (1) The share options were granted on June 3, 2011 under the Pre-IPO Share Option Scheme, each with an exercise price of HK\$1.00 (adjusted) per Share and a validity period from January 14, 2012 to July 11, 2021.
- (2) The share options were granted on July 2, 2013 under the Share Option Scheme, each with an exercise price of HK\$0.833 (adjusted) per Share and a validity period from January 2, 2014 to July 1, 2023.
- (3) The share options were granted on November 17, 2015 under the Share Option Scheme, each with an exercise price of HK\$0.862 per Share and a validity period from May 17, 2016 to November 16, 2025.
- (4) Details of the underlying Shares comprised in the share options held by the Directors are shown in the section of "Share Option Scheme" above.
- (5) The percentage of shareholding interest in the Company is calculated on the basis of 2,144,491,200 Shares in issue as at June 30, 2016.
- (6) Mr. Shi Cuiming resigned as an INED with effect from September 19, 2016.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, as at June 30, 2016, none of the Directors and the chief executive of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange or as recorded in the Register or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## (b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares of the Company

As at June 30, 2016, the following persons/entities (other than the Directors or the chief executive of the Company) had interests and short positions in the shares and underlying shares of the company as recorded in the register of interests and short positions of substantial shareholders required to be kept by the Company under section 336 of the SFO (the "Register of Substantial Shareholders"):

### Long positions in shares of the Company

Name of shareholders	Note	Nature of interest	Number of shares held	Approximate percentage of shareholding to the total issued shares
Kemy	1	Beneficial owner	643,616,414	30.01%
Mr. Zhang Deliang	2	Interest a controlled corporation	357,400,000	16.67%
China Guorong	2	Beneficial owner	357,400,000	16.67%
GF Securities Co., Ltd. ("GF")	2	Person having a security interest in shares	357,400,000	16.67%

Notes:

- (1) These Shares were registered in the name of Kemy, the entire issued share capital of which was legally and beneficially owned as to 79% by Mr. Zhao Bing (an Executive Director of the Company and the Chairman of the Board), 17% by Ms. Shi Shuran (mother of Mr. Zhao Bing), 1% by Mr. Zhang Yonglu, 1% by Mr. Deng Xuejun (an Executive Director of the Company), 1% by Mr. Meng Yuxiao (an Executive Director of the Company) and 1% by Mr. Han Liren. Under the SFO, Mr. Zhao Bing was deemed to be interested in all the Shares held by Kemy.

- (2) On March 23, 2016, the Company entered into a subscription agreement with China Guorong, pursuant to which the Company had conditionally agreed to issue and China Guorong had conditionally agreed to subscribe for, the convertible bonds in an aggregate principal amount of HK\$166,905,800. On April 15, 2016, a supplemental agreement to the above agreement was signed by the same parties to amend certain rights of China Guorong. The Convertible Bonds bear an interest of 6% per annum payable on the Maturity Date or on the date of redemption thereof, whichever is the earlier. The Convertible Bonds may prior to the Maturity Date be converted into 357,400,000 conversion shares (subject to adjustments) based on the initial conversion price of HK\$0.467 each upon full conversion. The Convertible Bonds were issued on April 29, 2016. Details of the issue are set out in the announcements of the Company dated March 24, 2016, April 15, 2016 and April 29, 2016.

Pursuant to the terms of a facility agreement dated April 22, 2016 and entered into between China Guorong as borrower and GF Capital (Hong Kong) Limited ("GFHK"), GF's wholly owned subsidiary as facility agent (the "Facility Agreement"), the lenders named therein agreed to advance a term loan to China Guorong for a partial payment towards the purchase price of the Convertible Bonds. A security agreement was then executed by China Guorong as chargor and GFHK on behalf of the secured parties as defined therein on April 22, 2016, whereby China Guorong agreed to mortgage and charge, amongst other things, all of its interest in the Convertible Bonds and the Conversion Shares to be acquired by China Guorong and assign all of its interest and rights in the Convertible Bonds in favour of the Facility Agreement.

Save as disclosed above, as at June 30, 2016, the Directors were not aware of any persons/entities (other than a Director or the chief executive of the Company) which had any interest or short position in shares and underlying shares of the Company which were required to be recorded in the Register of Substantial Shareholders under section 336 of the SFO.

### CONFIRMATION OF NON-COMPETITION UNDERTAKING FROM CONTROLLING SHAREHOLDERS

The Company's controlling shareholders, Kemy, Mr. Zhao (an Executive Director and the Chairman of the Board) and Ms. Shi Shuran (collectively the "Covenantors", as defined in the Non-competition Deed) entered into the Non-competition Deed (the "Deed", please refer to the Prospectus for details) with the Company on June 13, 2011. Each of the Covenantors confirmed that as at June 30, 2016, they and their respective associates did not have any interest in any business apart from the business of the Group which competed or was likely to compete, either directly or indirectly, with the Group's business and which required disclosure pursuant to Rule 8.10 of the Listing Rules.

The Company is able to confirm as follows:

- i. The Covenantors have complied with the terms of the Deed for the Period.
- ii. In order to ensure that the Covenantors had complied with the Deed for the Period, the Company and the Board had requested and the Covenantors have given a written confirmation on their compliance with the non-competition undertaking under the Deed.
- iii. The Board was not aware of any matters regarding the non-compliance with the undertakings.
- iv. In light of the information available to them, the INEDs have reviewed whether the Covenantors had fully complied with the undertakings stipulated in the Deed for the Period. Having made all reasonable enquiries, they were satisfied that the Covenantors had complied with the terms of the Deed.
- v. There has not been any change in the terms of the non-competition undertakings under the Deed since the Company's listing on the Stock Exchange on July 14, 2011.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## CHANGES IN INFORMATION OF DIRECTORS

The changes in information of Directors since the publication of the Company's 2015 Annual Report are set out below pursuant to Rule 13.51B (1) of the Listing Rules:

Name of Director	Effective date	Details of changes
Mr. Shi Cuiming	September 19, 2016	<ul style="list-style-type: none"><li>Resigned as an independent non-executive Director of the Company</li><li>Ceased to be the chairman of each of the remuneration committee and the nomination committee of the Board (the "Remuneration committee") and ("Nomination Committee") respectively</li><li>Ceased to be a member of each of the Audit Committee and the corporate governance committee of the Board (the "Corporate Governance Committee")</li></ul>
Dr. Xu Wanqiang	September 19, 2016	<ul style="list-style-type: none"><li>Designated as the chairman of each of the Remuneration Committee and the Nomination Committee</li><li>Designated as a member of each of the Audit Committee and the Corporate Governance Committee</li></ul>

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# INDEPENDENT REVIEW REPORT



31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

**INDEPENDENT REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF  
CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.**  
*(incorporated in the Cayman Islands with limited liability)*

We have reviewed the interim financial information set out on pages 24 to 50, which comprises the condensed consolidated statement of financial position of China Fiber Optic Network System Group Ltd. (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) at 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board.

Our responsibility is to form a conclusion, base on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCORE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

**HLB Hodgson Impey Cheng Limited**  
*Certified Public Accountants*

**Shek Lui**  
Practising Certificate Number: P05895

Hong Kong, August 29, 2016

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2016

	Notes	For the six months ended June 30,	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
<b>REVENUE</b>	3	<b>774,938</b>	885,378
Cost of sales		<b>(580,347)</b>	(618,735)
<b>Gross profit</b>		<b>194,591</b>	266,643
Other income	4	<b>13,675</b>	14,373
Selling and distribution expenses		<b>(5,161)</b>	(13,070)
Administrative expenses		<b>(65,594)</b>	(61,631)
Other expenses		<b>(1,196)</b>	(1,565)
Finance costs	5	<b>(29,784)</b>	(21,116)
<b>PROFIT BEFORE TAX</b>	5	<b>106,531</b>	183,634
Income tax expense	6	<b>(25,652)</b>	(35,338)
<b>PROFIT FOR THE PERIOD</b>		<b>80,879</b>	148,296
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Foreign currency translation		<b>17,283</b>	(760)
Total comprehensive income for the period attributable to owners of the Company		<b>98,162</b>	147,536
Earnings per share attributable to ordinary equity holders of the Company:			(Restated)
Basic	7	<b>RMB0.038</b>	RMB0.070
Diluted	7	<b>RMB0.033</b>	RMB0.069

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2016

	Notes	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	2,583,825	2,461,274
Prepaid land lease payments	8	23,282	23,591
Payments in advance		4,677	11,026
Goodwill		15,563	15,563
Available-for-sale investment		14,300	14,300
Deferred tax assets		3,203	2,361
Total non-current assets		2,644,850	2,528,115
<b>CURRENT ASSETS</b>			
Inventories		159,024	74,879
Trade and notes receivables	9	2,578,045	2,655,519
Prepayments, deposits and other receivables	10	328,683	400,639
Pledged bank balances	11	457,732	490,967
Time deposits	11	53,498	4,520
Cash and cash equivalents	11	332,766	364,222
Total current assets		3,909,748	3,990,746
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	12	786,846	782,919
Other payables and accruals	13	951,574	936,871
Tax payable		247,421	238,462
Interest-bearing bank loans	14	950,256	956,342
Obligations under finance leases		24,907	16,925
Total current liabilities		2,961,004	2,931,519
<b>NET CURRENT ASSETS</b>		948,744	1,059,227
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,593,594	3,587,342

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2016

	Notes	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans	14	15,685	261,283
Obligations under finance leases		28,587	28,214
Deferred income		12,900	14,433
Deferred tax liabilities		33,380	31,146
Convertible bonds	15	133,031	–
Total non-current liabilities		223,583	335,076
<b>Net assets</b>		<b>3,370,011</b>	3,252,266
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	16	13,599	13,599
Reserves		3,356,412	3,238,667
Total equity		3,370,011	3,252,266

**Zhao Bing**  
Director

**Meng Yuxiao**  
Director

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2016

	Attributable to owners of the Company												Total RMB'000
	Issued capital	Treasury shares	Share premium	Statutory reserve fund	Special reserve	Share option reserve	Capital contribution reserve	Capital redemption reserve	Equity component of Convertible Bonds	Foreign translation reserve	Retained earnings		
	RMB'000 (note 16)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At January 1, 2015	11,125	(23)	1,066,879*	139,803*	59,906*	30,779*	62,825*	15*	-	(6,702)*	1,566,760*	2,931,367	
Profit for the Period	-	-	-	-	-	-	-	-	-	-	148,296	148,296	
Other comprehensive income for the Period:													
Exchange difference on foreign currency translation	-	-	-	-	-	-	-	-	-	(760)	-	(760)	
Total comprehensive income for the Period	-	-	-	-	-	-	-	-	-	(760)	148,296	147,536	
Cancellation of repurchased shares	(23)	23	-	-	-	-	-	23	-	-	(23)	-	
Exercise of share options	275	-	37,306	-	-	-	-	-	-	-	-	37,581	
Transfer of share option reserve upon the exercise of share options	-	-	16,145	-	-	(16,145)	-	-	-	-	-	-	
Equity-settled share option arrangements (note 17)	-	-	-	-	-	2,911	-	-	-	-	-	2,911	
Transfer from/(to) reserves	-	-	-	13,467	-	-	-	-	-	-	(13,467)	-	
At June 30, 2015 (unaudited)	11,377	-	1,120,330*	153,270*	59,906*	17,545*	62,825*	38*	-	(7,462)*	1,701,566*	3,119,395	
At January 1, 2016	13,599	-	1,118,108*	165,748*	59,906*	22,318*	62,825*	38*	-	(24,720)*	1,834,444*	3,252,266	
Profit for the Period	-	-	-	-	-	-	-	-	-	-	80,879	80,879	
Other comprehensive income for the Period:													
Exchange difference on foreign currency translation	-	-	-	-	-	-	-	-	-	17,283	-	17,283	
Total comprehensive income for the Period	-	-	-	-	-	-	-	-	-	17,283	80,879	98,162	
Equity-settled share option arrangements (note 17)	-	-	-	-	-	11,611	-	-	-	-	-	11,611	
Issue of convertible bonds	-	-	-	-	-	-	-	-	7,972	-	-	7,972	
Transfer from/(to) reserves	-	-	-	9,388	-	-	-	-	-	-	(9,388)	-	
At June 30, 2016 (unaudited)	13,599	-	1,118,108*	175,136*	59,906*	33,929*	62,825*	38*	7,972*	(7,437)*	1,905,935*	3,370,011	

\* These reserves accounts comprise the consolidated reserves of RMB3,356,412,000 (December 31, 2015: RMB3,238,667,000) in the condensed consolidated statement of financial position.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2016

	Notes	For the six months ended June 30,	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		106,531	183,634
Adjustments for:			
Depreciation	8	52,184	48,641
Amortisation of prepaid land lease payments	8	309	309
Loss on disposal and write-off of items of property, plant and equipment	5	1,525	79
Finance costs	5	29,784	21,116
Equity-settled share option expense	5	11,611	2,911
Interest income	4	(7,563)	(12,291)
Deferred income released	4	(1,533)	(412)
Loss on sale and leaseback transactions		50	–
		192,898	243,987
Increase in inventories		(84,145)	(10,136)
Decrease/(increase) in trade and notes receivables		87,931	(128,479)
Decrease/(increase) in prepayments, deposits and other receivables		71,435	(126,568)
Increase in trade and notes payables		3,927	90,838
Increase in other payables and accruals		13,271	41,394
		285,317	111,036
Cash generated from operations		285,317	111,036
Interest paid		(27,540)	(17,838)
Interest received from bank balances and deposits		7,563	12,291
Income tax paid		(15,302)	(14,109)
		250,038	91,380
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(174,117)	(208,751)
Proceeds from disposal of items of property, plant and equipment		1,286	3,261
(Increase)/decrease in time deposits with original maturity of over three months when acquired		(48,978)	90,393
Decrease/(increase) in pledged bank balances		33,235	(9,773)
Receipt of government grants		–	649
		(188,574)	(124,221)
Net cash flows used in investing activities		(188,574)	(124,221)

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2016

	Notes	For the six months ended June 30,	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Exercise of share options		–	37,581
New bank loans		119,235	488,237
Repayment of bank loans		(392,195)	(215,324)
Proceed from obligations under finance leases		32,004	30,639
Repayment of obligations under finance leases		(20,002)	(3,226)
Issue of convertible bonds		137,240	–
Net cash flows (used in)/generated from financing activities		<b>(123,718)</b>	337,907
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of period		364,222	851,361
Effect of foreign exchange rate changes, net		30,798	(868)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<b>332,766</b>	1,155,559
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		321,237	826,914
Non-pledged time deposits		65,027	428,648
Cash and cash equivalents as stated in the condensed consolidated statement of financial position		<b>386,264</b>	1,255,562
Non-pledged time deposits with original maturity of over three months	12	(53,498)	(100,003)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows and financial position	12	<b>332,766</b>	1,155,559

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 1. CORPORATE INFORMATION

China Fiber Optic Network System Group Ltd. (the "Company") is a limited liability company incorporated in the Cayman Islands on August 7, 2006 under the Companies Law of the Cayman Islands. The registered office address of the Company is Maples Corporate Services Limited, P.O. Box 309, Uglund House, Grand Cayman, Cayman Islands. The Company's principal place of business in Hong Kong is located at Office Suite 2001-02, 20th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong and will be moved to Room 1511, 15th Floor, New World Tower 1, 16-18 Queen's Road Central, Hong Kong with effect from September 2, 2016.

During the Period, the Company acted as an investment company and its subsidiaries were principally engaged in the production and sale of fiber optic patch cords and other accessories. There were no significant changes in the nature of the principal activities of the Group during the Period.

In the opinion of the directors of the Company (the "Directors"), the holding company and the ultimate holding company of the Company is Kemy Holding, Inc. ("Kemy"), which is incorporated in the Cayman Islands.

## 2.1 BASIS OF PREPARATION

The unaudited interim condensed financial information for the Period has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2015.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015, except for the adoption of amendments to a number of International Financial Reporting Standards issued by the International Accounting Standards Board that are mandatory for the first time for the financial year beginning January 1, 2016. The adoption of these amendments has had no significant financial effect on the financial position or performance of the Group.

## 3. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue, which is the Group's turnover, represents the net invoiced value of goods sold, net of various types of government surcharges.

The Group's revenue and contribution to profit are mainly derived from the manufacture and sale of fiber optic patch cords and other accessories, which is regarded as a single reportable operating segment in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for purposes of resources allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

### Entity-wide disclosures

#### Information about products

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the Period:

	For the six months ended June 30,			
	2016		2015	
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%
Fiber optic patch cords	298,227	38.5	614,896	69.4
Connection and distribution product series	337,761	43.6	229,979	26.0
Equipment room accessories	138,950	17.9	40,503	4.6
	<b>774,938</b>	<b>100.0</b>	885,378	100.0

#### Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers during the Period. The geographical locations of customers are determined based on the locations at which the goods were delivered.

	For the six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Domestic*:		
— the Peoples' Republic of China (the "PRC")	689,248	783,989
Overseas:		
— New Zealand	41,750	41,469
— Australia	16,258	28,668
— United Kingdom	27,653	31,252
— Others	29	—
	<b>85,690</b>	101,389
	<b>774,938</b>	885,378

\* Place of domicile of the Group's principal subsidiary, Hebei Sifang Telecommunication Equipment Co., Ltd. ("Sifang Telecom").

At the end of the reporting period, except for certain fixed assets in Canada and a property in Hong Kong, all of the Group's non-current assets were located in the PRC.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

### Entity-wide disclosures (continued)

#### Information about major customers

Revenue from a major customer, which accounted for 10% or more of the Group's revenue during the Period, is set out below:

	For the six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Customer A*	–	187,783
Customer B	176,845	–
Customer C	128,965	–
Customer D	104,399	–

\* No information on turnover for the current period is disclosed for this customer since it contributed less than 10% to the Group's turnover for the Period.

## 4. OTHER INCOME

An analysis of the Group's other income during the Period is as follows:

	For the six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Government grants*	2,226	855
Deferred income released	1,533	412
Interest income	7,563	12,291
Rental income	608	748
Others	1,745	67
<b>Total other income</b>	<b>13,675</b>	<b>14,373</b>

\* There are no unfulfilled conditions or contingencies relating to these grants.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	For the six months ended June 30,	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Cost of inventories sold		580,347	618,735
Employee benefit expense (including Directors' remuneration):			
Wages and salaries		18,693	26,813
Equity-settled share option expense	17	11,611	2,911
Pension scheme contributions			
— Defined contribution fund		2,379	2,950
Housing fund			
— Defined contribution fund		586	727
Total employee benefit expense		33,269	33,401
Interest on bank loans		26,205	21,116
Interest on finance leases		1,335	—
Interest on convertible bonds		2,244	—
Finance costs		29,784	21,116
Auditors' remuneration		860	1,200
Depreciation of items of property, plant and equipment	8	52,184	48,641
Amortisation of prepaid land lease payments	8	309	309
Operating lease rental in respect of buildings		1,283	2,839
Loss on disposal and write-off of items of property, plant and equipment		1,525	79
Research and development costs		4,792	13,689

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 6. INCOME TAX

The major components of the income tax expense for the Period are as follows:

	For the six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Current — the PRC		
Charge for the period	22,808	33,949
Deferred	2,844	1,389
<b>Total tax charge for the period</b>	<b>25,652</b>	<b>35,338</b>

Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.
- (b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the Period.
- (c) No provision for Canadian profits tax has been made as the Group had no taxable profits derived from or earned in Canada during the Period.
- (d) Except for Sifang Telecom which is entitled to a preferential corporate income tax ("CIT") rate of 15% (six months ended June 30, 2015: 15%), other PRC subsidiaries are subject to the PRC CIT rate at 25% (six months ended June 30, 2015: 25%) during the Period.

In 2014, Sifang Telecom has renewed the high and new technology enterprise certificate and is entitled to a preferential CIT rate of 15% for three years commencing from January 1, 2014.

Pursuant to the income tax rules and regulations of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in the PRC effective from January 1, 2008.

Pursuant to the resolution of the board of directors of Sifang Telecom dated July 11, 2016, Sifang Telecom will distribute dividends of not more than 25% of Sifang Telecom's distributable profit (after appropriation to the statutory reserve fund) in respect of the Period to the Company and the remaining distributable profit will be used for the business development of Sifang Telecom and will not be distributed to the Company. Therefore, a deferred tax liability of RMB2,233,000 (June 30, 2015: RMB3,030,000), representing 10% withholding tax on 25% of Sifang Telecom's distributable profit, has been provided for during the Period.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,760,672,000 (six months ended June 30, 2015 (Restated): 2,118,087,000 in issue adjusted with bonus issue in 2015) in issue during the Period.

The calculation of the diluted earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended June 30,	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	80,879	148,296
Interest on convertible bonds	2,244	–
Profit attributable to ordinary equity holders of the Company used in the diluted earnings per share calculation	83,123	148,296

	For the six months ended June 30,	
	2016 '000 (Unaudited)	2015 '000 (Unaudited) (Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,144,491	2,118,087
Effect of dilution — weighted average number of ordinary shares:		
Share options	–	29,165
Convertible bonds	357,400	–
	2,501,891	2,147,252

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 8. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

Movements in property, plant and equipment and prepaid land lease payments during the Period are as follows:

	Property, plant and equipment RMB'000 (note (a))	Prepaid land lease payments RMB'000 (note (b))
Carrying amount at January 1, 2016	2,461,274	23,591
Additions	180,468	–
Disposals	(5,733)	–
Depreciation/amortisation charged for the Period (note 5)	(52,184)	(309)
Carrying amount at June 30, 2016 (unaudited)	2,583,825	23,282

Notes:

- (a) At the end of the reporting period, certain of the Group's property, plant and equipment with an aggregate carrying amount of RMB189,608,000 and RMB41,022,000 (December 31, 2015: RMB253,290,000 and RMB41,979,000) had been pledged to secure the Group's interest-bearing bank loans (note 14) and obligation under finance leases respectively.
- (b) As at June 30, 2016, prepaid land lease payments with a net book amount of RMB17,757,000 (December 31, 2015: RMB24,210,000) had been pledged to banks for bank loans granted to the Group (note 14).

## 9. TRADE AND NOTES RECEIVABLES

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Trade receivables		
— billed	772,342	513,274
— unbilled	1,802,640	2,136,776
Notes receivable	3,063	5,469
Impairment	–	–
	2,578,045	2,655,519

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 9. TRADE AND NOTES RECEIVABLES (continued)

Trade receivables are non-interest-bearing and are generally on terms of 30 to 360 days.

Unbilled trade receivables are sales made by the PRC subsidiaries of the Company, but the related value added tax invoices were not yet issued.

The Group does not have any collateral or other credit enhancements over its trade receivable balances.

An aging analysis of billed trade receivables at the end of the reporting period, based on the invoice date, is as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Within 1 month	113,830	64,420
1 to 3 months	102,249	120,801
3 to 6 months	111,202	59,807
6 to 12 months	205,356	139,293
Over 12 months	239,705	128,953
	<b>772,342</b>	513,274

The aging analysis of the billed trade receivables that are not individually nor collectively considered to be impaired is as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Neither past due nor impaired	365,329	274,602
Past due but not impaired		
Less than 1 month past due	1,948	44,396
Over 1 month but within 3 months past due	1,780	48,520
Over 3 months past due	403,285	145,756
	<b>772,342</b>	513,274

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 9. TRADE AND NOTES RECEIVABLES (continued)

Receivables that were neither past due nor impaired relate to a certain number of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and these balances are still considered fully recoverable.

As at June 30, 2016, certain trade receivables with an aggregate amount of RMB212,589,000 (December 31, 2015: RMB396,396,000) have been pledged to secure the Group's interest-bearing bank loans (note 14).

At the end of the reporting period, trade receivables of the Group denominated in US\$ amounted to RMB475,320,000 (December 31, 2015: RMB396,396,000).

## 10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Prepayments for purchase of raw materials	281,359	367,524
Prepaid land lease payments to be amortised within one year	619	619
Input value-added tax	15,416	15,368
Deposits and other receivables	31,289	17,128
	<b>328,683</b>	400,639

None of the above assets is either past due or impaired. The financial assets included in the above relate to receivables for which there was no recent history of default.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 11. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Cash and bank balances	642,680	566,991
Time deposits with original maturity of less than 3 months	147,818	147,724
Time deposits with original maturity of over 3 months	53,498	144,994
	<b>843,996</b>	859,709
Less: pledged bank balances for:		
— Issuance of notes payable	(307,452)	(260,148)
— Credit cards	(102)	(188)
— Interest-bearing bank loans (note 14)	(150,178)	(230,631)
	<b>(457,732)</b>	(490,967)
Less: non-pledged time deposits with original maturity over 3 months	(53,498)	(4,520)
Cash and cash equivalents	<b>332,766</b>	364,222

Cash and cash equivalents are deposited with creditworthy banks with no recent history of default.

## 12. TRADE AND NOTES PAYABLES

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Trade payables	102,160	56,555
Notes payable	614,400	522,943
	<b>716,560</b>	579,498
Unbilled payables	70,286	203,421
	<b>786,846</b>	782,919

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 12. TRADE AND NOTES PAYABLES (continued)

An aging for consisting with those on analysis of the trade payables and notes payable at the end of the reporting period, based on the respective invoice date and issue date, is as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Within 3 months	400,625	348,118
3 months to 6 months	277,094	191,235
6 months to 1 year	12,666	19,374
Over 1 year	26,175	20,771
	<b>716,560</b>	579,498

Notes payable are interest-free with terms of maturity of within 180 days. As at June 30, 2016, notes payable were secured by the pledge of cash at banks of RMB307,452,000 (December 31, 2015: RMB260,148,000) (note 11).

## 13. OTHER PAYABLES AND ACCRUALS

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
<i>Payables related to:</i>		
Taxes and surcharges	428,341	506,272
Payroll and welfare	15,403	13,875
Construction of property, plant and equipment	324,193	354,514
Professional fees	1,998	1,982
Others	23,234	14,859
	<b>793,169</b>	891,502
Accruals	10,926	7,717
Receipts in advance from customers	147,479	37,652
	<b>951,574</b>	936,871

Other payables are non-interest-bearing and have average payment terms within one year.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 14. INTEREST-BEARING BANK LOANS

	Notes	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Bank loans — secured	(a)	519,980	802,848
Bank loans — unsecured	(b)	445,961	414,777
		<b>965,941</b>	1,217,625
<i>Bank loans repayable:</i>			
Within one year		950,256	956,342
In the second year		1,311	247,823
In the third to fifth years, inclusive		14,186	12,887
Beyond five years		188	573
		<b>965,941</b>	1,217,625
Less: Amounts not repayable within one year from the end of the reporting period but contain a repayment on demand clause		(325,526)	(194,721)
Amounts due within one year		(624,730)	(761,621)
Amounts shown under current liabilities		<b>(950,256)</b>	(956,342)
Amounts shown under non-current liabilities		<b>15,685</b>	261,283
<i>The borrowings comprise:</i>			
Fixed borrowings		55,818	19,652
Variable-rate borrowings		910,123	1,197,973
		<b>965,941</b>	1,217,625

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 14. INTEREST-BEARING BANK LOANS (continued)

The effective interest rates per annum at the respective reporting dates, are as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Fixed borrowings	<b>3.10%–6.46%</b>	4.03%–6.31%
Variable-rate borrowings	<b>2.15%–4.25%</b>	1.80%–7.38%

- (a) As at June 30, 2016, included in secured bank loans was a bank loan of RMB1,616,000 (December 31, 2015: RMB1,776,000) which is denominated in HK\$, bears interest at 3.10% below the Hong Kong dollar prime rate per annum and is repayable by 120 monthly equal installments commencing on March 3, 2013.

As at June 30, 2016, bank borrowings of approximately RMB214,383,000 (December 31, 2015: RMB303,713,000) were mortgaged and secured by certain property, plant and equipment and prepaid land lease payments of the Group. Bank borrowings of approximately RMB106,294,000 (December 31, 2015: RMB207,702,000) were secured by certain trade receivables of the Group. Bank borrowings of approximately RMB199,302,000 (December 31, 2015: RMB291,433,000) were secured by certain bank balances and time deposits of the Group.

The bank loans were secured by:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
<i>Secured by — net book amount of:</i>		
Property, plant and equipment	<b>189,608</b>	253,290
Prepaid land lease payments	<b>17,757</b>	24,210
Trade receivables	<b>212,589</b>	396,396
Bank balances and time deposits	<b>150,178</b>	230,631

- (b) As at June 30, 2016, included in unsecured bank loans was an amount of RMB326,727,000 (December 31, 2015: RMB345,225,000) which is denominated in US\$, bears interest at 3.00% to 4.25% above the prevailing London Interbank Offered Rate ("LIBOR") per annum, is repayable within three years by instalments and guaranteed by certain subsidiaries of the Company or the Company.
- (c) The amount due are based on scheduled repayment dates set out in the loan agreements.
- (d) The interest rate of variable-rate bank borrowings of the Group was varied according to the loan interest published by the People's Bank of China or LIBOR or Hong Kong dollar prime rate or Canadian dollar ("CAD") prime rate.
- (e) The above borrowings at June 30, 2016 will be repayable from July 2016 to February 2023.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 14. INTEREST-BEARING BANK LOANS (continued)

At the end of the reporting period, bank loans were denominated in the following currencies:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
US\$	632,323	844,360
RMB	317,135	357,452
HK\$	1,616	1,776
CAD	14,867	14,037
	<b>965,941</b>	1,217,625

The Directors have assessed that the fair values of the long-term interest-bearing bank loans approximate to their carrying amounts based on the prevailing borrowing rates available for loans with similar terms and maturities during the reporting period. The fair value measurement hierarchy of the bank loans requires significant observable input (Level 2).

## 15. CONVERTIBLE BONDS

On April 29, 2016, the Company issued convertible bonds with an aggregate principal amount of HK\$166,905,800 which bear an interest rate of 6% per annum ("Convertible Bonds"). The Convertible Bonds entitle the holder to convert them into ordinary shares at a conversion price of HK\$0.467 per ordinary share, subject to adjustments in accordance with the instrument constituting the Convertible Bonds, at any time from April 29, 2016 to the second anniversary of the date of the issue of the Convertible Bonds, i.e. April 29, 2018 (the "Maturity Date").

Conversion may occur at any time commencing from the expiry of the sixth month from April 29, 2016 and up to the Maturity Date.

The Convertible Bonds contain two components: liability and equity components. The equity element is presented in equity heading "equity component of Convertible Bonds". The effective interest rate of the liability component on the initial recognition was 10.15% per annum.

	RMB'000
Proceeds of issue, net	137,240
Liability component at date of issue	(129,268)
<b>Equity component (Unaudited)</b>	<b>7,972</b>
Liability component at date of issue	129,268
Interest charged	2,244
Interest payable/paid	(1,431)
Exchange realignment	2,950
<b>Liability component as at 30 June 2016 (Unaudited)</b>	<b>133,031</b>

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 16. ISSUED CAPITAL

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Authorised: 10,000,000,000 (December 31, 2015: 10,000,000,000) ordinary shares of US\$0.001 each	<b>64,716</b>	64,716
Issued and fully paid: 2,144,491,200 (December 31, 2015: 2,144,491,200) ordinary share of US\$0.001 each	<b>13,599</b>	13,599

## 17. SHARE OPTION SCHEMES

On June 3, 2011, the Company adopted a share option scheme (the "Old Option Scheme") for the purpose of providing incentives and rewards to three directors of the Group, who had contributed to the success of the Group's operations. On July 14, 2011, in consideration of HK\$1.00 from each grantee, options to subscribe for an aggregate of 21,600,000 ordinary shares of US\$0.001 each in the share capital of the Company (the "Shares") at a subscription price per share equal to the offer price of HK\$1.2 had been granted to three grantees under the Old Option Scheme.

The Old Option Scheme remained in force for a period commencing on June 3, 2011 and expiring on the day immediately prior to July 14, 2011 (the "Listing Date"), the date on which the Shares were initially listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") after which period no further options would be granted under the Old Option Scheme, but the provisions of the Old Option Scheme shall in all other respects remain in full force and effect and options granted under the Old Option Scheme during their lives may continue to be exercisable in accordance with the Old Option Scheme and their terms of issue.

Options granted pursuant to the Old Option Scheme will vest over three years or at the rate of one-sixth of the options granted every six months from the date which the grantees may exercise the options granted to them.

Pursuant to relevant clauses of the Old Option Scheme, the grantees may not exercise the options that have been granted to them during any period after the Listing Date if such exercise by them would render the public float of the Company falling below 25%, or any other minimum public float percentage as prescribed under the Rules Governing the Listing of Securities on the Stock Exchange.

In addition, the Company adopted a new share option scheme (the "New Option Scheme") which has been conditionally approved by a resolution of the shareholders passed on June 3, 2011 and will remain in force for 10 years from that date. The Directors may, at their absolute discretion, invite any full-time or part-time employees, executives or officers of the Company or any member of the Group (including executive directors, non-executive directors and independent non-executive directors (the "INEDs")), advisors and consultants of the Group to take up options to subscribe for Shares.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 17. SHARE OPTION SCHEMES (continued)

On July 2, 2013, a total of 76,400,000 share options ("Share options 1") carrying the rights to subscribe for up to a total of 76,400,000 ordinary shares of US\$0.001 each in the share capital of the Company were granted by the Company to certain grantees under the New Option Scheme. The grant of the share options had been approved by all independent non-executive directors of the Company on July 2, 2013. Among the share options granted, 27,900,000 share options were granted to executive directors and independent nonexecutive directors of the Company.

On November 27, 2015, a total of 89,662,800 share options ("Share options 2") carrying the rights to subscribe for up to a total of 89,662,800 ordinary shares of US\$0.001 each in the share capital of the Company were granted by the Company to certain grantees under the New Option Scheme. The grant of the share options had been approved by all independent non-executive directors of the Company on November 17, 2015. Among the share options granted, 36,217,200 share options were granted to executive directors and independent non-executive directors of the Company.

Subject to the rules of the New Option Scheme, Share options 1 and Share options 2 granted will vest over three years or at the rate of one-sixth of the options granted every six months from the date which the grantees may exercise options granted to them with an exercise price of HK\$0.83 and HK\$0.86 per share respectively.

The maximum number of unexercised share options currently permitted to be granted under the schemes is an amount equivalent, upon their exercise, to 10% of the issued shares of the Company immediately following the commencement of dealings in the shares of the Company on the Stock Exchange. The maximum number of shares issuable under share options to each eligible participant in the schemes within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company (other than a proposed independent non-executive director) or to any of their associates, are subject to approval in advance by the independent non-executive directors, other than the independent non-executive director who is offered the option in question (if applicable). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1.00 in total by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 17. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the Old Option Scheme as of June 30, 2016 and December 31, 2015:

### June 30, 2016 and December 31, 2015

Exercise price HK\$ per share*	Number of options '000	Exercise period
1.0	4,320	January 14, 2014 to July 11, 2021
1.0	4,320	July 14, 2014 to July 11, 2021
	8,640	

The fair value of the share options granted in 2011 under the Old Option Scheme was HK\$11,684,000 (equivalent to approximately RMB9,473,000) or HK\$0.54 each (equivalent to approximately RMB0.44 each), of which the Group recognized a share option expense of HK\$nil (equivalent to approximately RMBnil) during the period ended June 30, 2016 (December 31, 2015: HK\$nil (equivalent to approximately RMBnil)).

The following share options were outstanding under the New Option Scheme as at June 30, 2016 and December 31, 2015:

### June 30, 2016 and December 31, 2015

Exercise price HK\$ per share*	Number of options '000	Exercise period
<b>Share options 1</b>		
0.83	9,523	January 2, 2015 to July 1, 2023
0.83	15,280	July 2, 2015 to July 1, 2023
0.83	15,280	January 2, 2016 to July 1, 2023
0.83	15,280	July 2, 2016 to July 1, 2023
	55,363	

The fair value of the share options 1 granted in 2013 under the New Option Scheme was HK\$33,660,000 (equivalent to approximately RMB26,806,000) or HK\$0.44 each (equivalent to approximately RMB0.35 each), of which the Group recognized a share option expense of HK\$1,028,000 (equivalent to approximately RMB819,000) during the six months ended June 30, 2016 (December 31, 2015: HK\$5,878,000 (equivalent to approximately RMB4,681,000)).

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 17. SHARE OPTION SCHEMES (continued)

Exercise price HK\$ per share*	Number of options '000	Exercise period
<b>Share options 2</b>		
0.86	14,944	May 17, 2016 to November 17, 2025
0.86	14,944	November 17, 2016 to November 17, 2025
0.86	14,944	May 17, 2017 to November 17, 2025
0.86	14,944	November 17, 2017 to November 17, 2025
0.86	14,944	May 17, 2018 to November 17, 2025
0.86	14,943	November 17, 2018 to November 17, 2025
	89,663	

The fair value of the share options 2 granted in 2015 under the New Option Scheme was HK\$35,939,000 (equivalent to approximately RMB29,531,000) or HK\$0.40 each (equivalent to approximately RMB0.33 each), of which the Group recognized a share option expense of HK\$13,134,000 (equivalent to approximately RMB10,792,000) during the six months ended June 30, 2016 (December 31, 2015: HK\$3,655,000 (equivalent to approximately RMB3,003,000)).

\* The exercise of the share options is subject to adjustment in case of rights or bonus issues or other similar changes in the Company's share capital.

The Company had 63,667,000 share options exercisable as at June 30, 2016 (December 31, 2015: 33,441,000 shares) with a weighted average exercise price of HK\$0.86 per share (December 31, 2015: HK\$0.88 per share).

The fair values of equity-settled share options granted under the Old Option Scheme and the New Option Scheme were estimated as of the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Old Option Scheme	New Option Scheme Share options 1	New Option Scheme Share options 2
Exit rate (%)	10.00	10.00	Nil
Dividend yield (%)	Nil	1.13	Nil
Expected volatility (%)	49.90	54.00	41.74
Risk-free interest rate (%)	2.27	3.05	1.64

No other feature of the options granted was incorporated into the measurement of fair value.

At June 30, 2016, the Company had 8,640,000 share options outstanding under the Old Option Scheme and 145,026,000 share options outstanding under the New Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 153,666,000 additional shares and additional share capital of US\$153,666 (equivalent to approximately RMB1,021,000) and share premium of US\$16,820,000 (equivalent to approximately RMB111,741,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 153,666,000 share options outstanding under the share option schemes, which represented approximately 7.17% of the Company's shares in issue as of that date.

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 18. DIVIDENDS

During its meeting held on August 29, 2016, the Board has resolved not to declare the payment of any interim dividend to the shareholders of the Company for the Period (six months ended June 30, 2015: Nil).

## 19. COMMITMENTS

### (a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Contracted, but not provided for:		
— Property, plant, and equipment	637,459	338,797

### (b) Operating lease arrangements — as lessor

As lessor, the Group leases certain part of its office buildings under operating lease arrangements with lease terms ranging from two to twenty years. As at June 30, 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Within one year	2,369	2,046
In the second to fifth years, inclusive	2,351	2,635
After five years	138	148
	4,858	4,829

### (c) Operating lease arrangements — as lessee

The Group leases certain of its office buildings under operating lease arrangements for terms of three years. As at June 30, 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Within one year	2,264	4,198
In the second to fifth years, inclusive	1,805	2,207
	4,069	6,405

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended June 30, 2016

## 20. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in this financial information, the Group had the following transactions with a related party for the Period:

On February 1, 2014 and April 1, 2015, the Group entered into two tenancy agreements with Steel Magnolia Investment Ltd. ("Steel Magnolia"), a company controlled by Mr. Zhao Bing's wife, Ms. Du Lixia. Mr. Zhao Bing is the chairman of the Board and an executive Director of the Company. Pursuant to the tenancy agreements, the Group leased from Steel Magnolia a building with a total floor area of 377.74 square metres for five years ending February 1, 2019 at a fixed monthly rental of approximately CAD4,358 (equivalent to approximately RMB21,423), and offices with a total floor area of 1,840 square metres for five years ending April 1, 2020 at a monthly rental of approximately CAD9,507 (equivalent to approximately RMB46,734). During the Period, the rental paid by the Group to Steel Magnolia amounted to RMB409,000 (six months ended June 30, 2015: RMB271,000). The Directors considered that the rental expenses charged under the tenancy agreements were based on the market rate for similar premises in nearby locations.

- (b) Compensation of the key management personnel of the Group:

	For the six months ended June 30,	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Basic salaries and other benefits	3,705	3,924
Equity-settled share option expense	6,744	2,892
Pension scheme contributions	37	111
	<b>10,486</b>	6,927

## 21. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorized for issue by the board of directors on August 29, 2016.